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UNCLAS SECTION 01 OF 02 DJIBOUTI 000300

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SUBJECT: DJIBOUTI'S INPUT FOR 2006

PRESIDENT'S REPORT ON AGOA

REF: STATE 26707

1.Summary. Djibouti continues to make improvements in some problem areas. Djibouti's economy took a positive step in 2005 by recording a surplus budget. Djibouti continues to offer incentives to investors such as Dubai financing of a modern port and a five star hotel. The Government of Djibouti (GoD) is making increasing efforts to curb corruption. Donors have pledged to fund a major portion of Djibouti's long-term program for reducing poverty. However, relations between the GoD and the opposition are not improving. The opposition boycotted the presidential elections in April 2005 and will adopt the same attitude for the upcoming regional elections. The government also continues to intimidate legitimate unions. End Summary.

Market Economy/Economic Reform/Elimination
of barriers to U.S. Trade

12. Djibouti relies heavily on services, which account for more than 80% of its GDP. Djibouti's economy is getting healthier and recorded a 3.2% growth rate for 2005. Inflation was 3.5% mainly due to the rise in oil prices. The budget in 2005 had a surplus for the first time since 1998. Djibouti continues to have a market-based, liberal economic regime with minimum interference from the Government. Djibouti offers attractive incentives to foreign investors and does not impose barriers to U.S. trade. Djibouti Free Zone, managed by Dubai's Djebel Ali Free Zone, also offers interesting incentives including tax breaks, simplified administration and 100% foreign ownership

13. Doraleh Oil Terminal, funded by Dubai Port World (DP World) and Emirates National Oil Company (ENOC) was inaugurated in February 2006. A Container Terminal and a Commercial Free Zone are also planned. DP World, which is currently managing Djibouti's port and airport, is also funding the construction of a five star hotel, which will be managed by the Kempinski Hotel Group.

14. Oceanic Developpement, a French company specializing in fishing, was recently selected to manage and develop Djibouti's fishing port. Oceanic Developpement is expected to improve the standards of the fishing port to make it eligible for exporting fish to the United States and Europe.

Political Pluralism/Rule of Law/Anti-
corruption

15. Since 2002, eight political parties exist in Djibouti, grouped in two coalitions: the ruling coalition and the opposition coalition. The opposition boycotted the presidential elections held in April 2005 because their conditions for transparency were not accepted by the ruling coalition. The opposition is intending to also boycott upcoming regional elections on March 10, 2006.

16. Rule of Law is progressing at a very slow pace in Djibouti. The judiciary system in Djibouti, inherited from the French, is complex and far from transparent with government interference commonplace.

Enforcement of laws and regulations remains difficult.

17. The Government of Djibouti ratified the United Nations Convention on Corruption in February 2005 and is making attempts to reduce corruption and promote transparency. The State General Inspection, a government agency created to promote transparency, was given more support and authority. Also, the Minister of Finance has pledged to fight tax evasion, fraud and price speculation, and has reactivated the Finance Inspection section, an auditing body in his ministry. Finally, the GOD signed an agreement with Dubai Customs International (DCI) in 2005 to manage, develop and promote transparency within Djibouti Customs.

Poverty Reduction

18. The increasing poverty rate is a direct consequence of the high unemployment rate. The poverty rate exceeds forty percent while unemployment is at a staggering seventy percent among the youth 30 years of age or less. In order to fight against poverty, the government has finalized a long-term poverty reduction strategy ending in 2015. It essentially promotes economic growth, human resources development, social safety nets, and good governance. The GOD submitted its need for the poverty program during an Arab donors' round-table meeting held November 2005 in Djibouti. The Arab donors, comprising the Islamic Bank of Development, the Kuwaiti Fund for Development and the Arab Fund for Economic and Social Development, approved US\$ 341 Million out of the US\$ 455 Million requested for the poverty reduction program.

Labor/Child Labor/Human Rights

19. The government continues to interfere in the internal affairs of labor unions, which are perceived as the opposition. The government continues to intimidate union leaders. Several union members were jailed and fired following a 2005 strike at the port. A new Labor Code was approved by the Parliament in December 2005. This new document is meant to attract and provide confidence to potential investors but is widely contested by Union members. Unions feel that this new Labor Code limits the rights of employees at the profit of employers. In addition, the new Labor Code reportedly makes it very difficult for employees to form unions. The Embassy will report on the details of the new Labor Code when it becomes public.

110. Child labor exists in Djibouti but not in its worst form. In urban areas, children are very active in the informal economic activities: they work as shoe cleaners, car washers, or domestic servants. In rural areas, children help their parents in agricultural or livestock areas. The country has laws against the worst forms of child labor. These laws are found in the Constitution, in the International Conventions ratified by Djibouti such as ILO Convention 182, the UN Convention on the Rights of Children, and in the Penal Code.

111. The Human Rights situation in Djibouti remains poor despite some timid progress. No political detainees were reported in 2005. However, police brutalities were noted during an operation to remove residents from illegal wooden houses, resulting in several deaths. In early February 2005, a seminar on Female Genital Mutilation (FGM) was held in Djibouti where international guests were invited. After the seminar, Djibouti took a positive step by ratifying the Maputo Protocol outlawing FGM.

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